# EXHIBIT "1"

APPRAISAL OF
RORIPAUGH RANCH, PHASE II,
A MASTER PLANNED DEVELOPMENT
TEMECULA, CALIFORNIA 92591

*Prepared For:*

SCOTT TOMAK
APPRIASAL DEPARTMENT
AMTRUST BANK
1801 EAST NINTH STREET, SUITE 200
CLEVELAND, OH 44114

JUNE 6, 2008

*Prepared By:*

MICHAEL FRAUENTHAL & ASSOCIATES, INC.
24662 DEL PRADO 2ND FLOOR
DANA POINT, CA 92629
MFA # 08-156

*Aerial view of the subject property as of July 4, 2008*

MICHAEL FRAUENTHAL & ASSOCIATES, INC.

Real Estate Appraisers • Consultants

June 6, 2008

Mr. Scott Tomak
Appraisal Department
AMTRUST BANK
1801 East Ninth Street, Suite 200
Cleveland, OH 44114

**RE: APPRAISAL OF RORIPAUGH RANCH, PHASE II, A MASTER PLANNED COMMUNITY, TEMECULA, CALIFORNIA 92591**

Dear Mr. Tomak:

At your request, we have inspected and appraised the above-referenced property. The purpose of this appraisal is to estimate 1) the "as is" market value of subject the planning areas, including and excluding CFD reimbursements; 2) the prospective bulk market value of the subject planning areas assuming completion to a blue-top status, including and excluding CFD reimbursements; and 3) the investment value to AmTrust Bank, including and excluding CFD reimbursements. The appraised values are based on the existing and forecasted market conditions as of May 28, 2008 and are subject to the definitions of values, assumptions and limiting conditions, and certification contained in the attached report. The interest appraised is that of the fee simple estate.

The subject property consists of approximately 38± acres comprising Phase II of Roripaugh Ranch, a master planned community being developed by Ashby USA, LLC. The subject consists of 12 Planning Areas containing 1,061± residential dwelling units and two school sites. The property is situated along the extension of Butterfield Stage Road, south of Murrieta Hot Springs Road. A complete description of the property appraised, together with explanations in the appraisal procedures used, are presented in the body of this report.

This appraisal conforms to the Financial Institutions Reform, Recovery, and Enforcement act of 1989 (FIRREA), the Code of Professional Ethics and Standards of Professional Practice set forth by the Appraisal Institute, the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Foundation and the appraisal requirements of AmTrust Bank. Under USPAP guidelines, as amended and effective January 1, 2008, the appraisal results are reported in a *self-contained report,* per USPAP Standards Rule 2-2(a).

Mr. Scott Tomak
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Based upon the data and conclusions presented in the attached report, it is our opinion the estimated market value of the subject property, is as follows:

1A) The ***"as is" value*** of the subject Planning Areas (14 through 24, 28, 29 & 31) of Roripaugh Ranch in bulk, assuming CFD reimbursements, as of May 28, 2008, is:

**$15,300,000**

**FIFTEEN MILLION THREE HUNDRED THOUSAND DOLLARS**

1B) The ***"as is" value*** of the subject Planning Areas (14 through 24, 28, 29 & 31) of Roripaugh Ranch in bulk, assuming no CFD reimbursements, as of May 28, 2008, is:

**$15,600,000**

**FIFTEEN MILLION SIX HUNDRED THOUSAND DOLLARS**

2A) The ***prospective bulk value*** of the subject Planning Areas (14 through 24, 28, 29 & 31) of Roripaugh Ranch in bulk, assuming completion to a blue-topped status including CFD reimbursements, as of August 31, 2009, is:

**$78,300,000**

**SEVENTY-EIGHT MILLION THREE HUNDRED THOUSAND DOLLARS**

2B) The ***prospective bulk value*** of the subject Planning Areas (14 through 24, 28, 29, & 31) of Roripaugh Ranch in bulk, assuming completion to a blue-topped status excluding CFD reimbursements, as of August 31, 2009, is:

**$82,200,000**

**EIGHTY-TWO MILLION TWO HUNDRED THOUSAND DOLLARS**

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3A) The ***investment value to AmTrust Bank*** of the subject Planning Areas (14 through 24, 28, 29 & 31) of Roripaugh Ranch in bulk, including CFD, as of June 6, 2008, is:

**$15,710,000**

**FIFTEEN MILLION SEVEN HUNDRED TEN THOUSAND DOLLARS**

3B) The ***investment value to AmTrust Bank*** of the subject Planning Areas (14 through 24, 28, 29 & 31) of Roripaugh Ranch in bulk, assuming no CFD, as of June 6, 2008, is:

**$25,865,000**

**TWENTY-FIVE MILLION EIGHT HUNDRED SIXTY-FIVE THOUSAND DOLLARS**

The following report contains a study and analysis of data and other material upon which the opinions of value are partially predicated.

Respectfully submitted,

MICHAEL FRAUENTHAL & ASSOCIATES, INC.

Michael F. Frauenthal, MAI
California State Cert. No. AG002952

Nick Walker, Associate
California State Cert. No. AG008430

# SUMMARY OF SALIENT FACTS AND CONCLUSIONS

**LOCATION:**

The subject planning areas are located in the northern portion of the city of Temecula and have been partially developed as a portion of Roripaugh Ranch. The property is situated along the south side of Murrieta Hot Springs Road along the proposed extension of Butterfield Stage Road.

**OWNER OF RECORD:**

Ashby USA, LLC, a California limited partnership

**LAND AREA/ PHASE II SUMMARY:**

The subject consists of a gross land area of 328.3± acres. The following table summarizes the subject by planning area.

| Planning Area | Gross Area (A) | No. of Lots | Min. Lot Size (SF) | Description |
|---|---|---|---|---|
| 14 | 13.5 | 77 | 3,150 | Detached SFR |
| 15 | 14.1 | 104 | 3,150 | Detached SFR |
| 16 | 28.4 | 121 | 5,000 | Detached SFR |
| 17 | 40.2 | 147 | 6,000 | Detached SFR |
| 18 | 28.4 | 121 | 6,000 | Detached SFR |
| 19 | 31.2 | 26 | 21,780 | Detached SFR |
| 20 | 30.3 | 29 | 21,780 | Detached SFR |
| 21 | 23.9 | 24 | 21,780 | Detached SFR |
| 22 | 20.3 | 126 | 3,150 | Detached SFR |
| 23 | 10.9 | 51 | 4,000 | Detached SFR |
| 24 | 10.6 | 71 | 4,000 | Detached SFR |
| 28 | 20.0 | N/A | N/A | School Site |
| 29 | 12.0 | N/A | N/A | School Site |
| 31 | 24.6 | 164 | 3,150 | Detached SFR |
| Totals | 308.4 | 1,061 | N/A | N/A |

**THOMAS BROTHERS MAP BOOK GUIDE NUMBER**

929 E6, E7, F6 & F7, Riverside County

**CENSUS TRACT NUMBER**

432.03, Riverside County

**ZIP CODE:**

92591

## *SUMMARY OF SALIENT FACTS AND CONCLUSIONS*

**ZONING/ENTITLEMENTS:**

The subject property is situated in the city of Temecula. According to the city, the property is zoned for a specific plan. The general plan indicates that the property be developed with residential uses with a maximum density of 3.0 dwelling units per acre. As proposed, the subject has a density of 2.2 units per acre.

The entire project has been entitled as Tract No. 29353-1, 29353-2 and 29353 (The "A" Maps). The subject planning areas are situated in Tract 29353-2 (recorded in September 2003) and Tract 29353 (not yet recorded).

**EARTHQUAKE HAZARD:**

The subject site does do not lie within an Alquist-Priolo Special Study Zone.

**FLOOD ZONE:**

According to the FEMA flood maps, the subject appears to lie within a Zone X flood zone per Community Map Number 060742 0005B, effective November 20, 1996. Zone X refers to areas of undetermined flood hazard. Flood insurance is not required with a Zone X designation.

**PRESENT CONDITION:**

The subject project has been bulk graded with streets cut, bridges constructed and some utilities installed. The site requires additional street improvements as well as utilities and common area improvements to be completed to a deliverable (blue-topped condition). The master developer intended to complete the subject planning areas to a blue-topped status, and then sell the individual planning areas to merchant home builders. Development of the site has been stopped due to the lack of funds and weakened market conditions.

According to the site development budget available, dated May 26, 2007, for our review, the cost to complete the subject site from its current condition to a blue-topped status has been estimated at $61,703,878, or $58,156 per lot.

Merchant builders will be required to provided intract improvements and pay fees due at building permit to complete the residential lots to a finished status. The intract costs have been estimated at $28,480,626, or $26,843 per lot for the 1,061 subject lots.

## *SUMMARY OF SALIENT FACTS AND CONCLUSIONS*

**DEVELOPMENT SCHEDULE:** Development of the site has been stopped due to the lack of funds and weakened market conditions. We have not been provided an anticipated time frame for completion of the site development. We have assumed a two year period to complete site development with lot deliveries beginning in one year in this analysis.

**HIGHEST AND BEST USE:** Complete site development and sell the various planning areas to merchant builders in blue-topped condition

**PURPOSE OF APPRAISAL:** The purpose of this appraisal is to estimate 1) the "as is" market value of subject the planning areas, including and excluding CFD reimbursements; 2) the prospective bulk market value of the subject planning areas assuming completion to a blue-top status, including and excluding CFD reimbursements; and 3) the investment value to AmTrust Bank, including and excluding CFD reimbursements.

**PROPERTY RIGHTS APPRAISED:** Fee simple interest

**VALUE CONCLUSIONS:**

**1A) The *"as is" value* of the Subject Planning Areas (14 through 24, 28, 29 & 31), Assuming CFD reimbursements, as of May 28, 2008, is:** **$15,300,000**

**1B) The *"as is" value* of the Subject Planning Areas (14 through 24, 28, 29 & 31), assuming no CFD reimbursements, as of May 28, 2008, is:** **$15,600,000**

## *SUMMARY OF SALIENT FACTS AND CONCLUSIONS*

| | |
|---|---|
| **2A) The *prospective bulk value* of the subject planning areas assuming completion to a blue-topped status, including CFD reimbursements, as of August 31, 2009, is:** | **$78,300,000** |
| **2B) The *prospective bulk value* of the subject planning areas assuming completion to a blue-topped status, excluding CFD reimbursements, as of August 31, 2009, is:** | **$82,800,000** |
| **3A) The *investment value to AmTrust Bank* of the subject Planning areas, including CFD, as of May 28, 2008, is:** | **$15,710,000** |
| **3B) The *investment value to AmTrust Bank* of the subject Planning areas, assuming no CFD, as of May 28, 2008, is:** | **$25,865,000** |
| EFFECTIVE DATE OF "AS IS" VALUE: | May 28, 2008 |
| REASONABLE EXPOSURE & MARKETING TIME: | 12 months for the subject property "as is" or completion to a blue-topped status. |

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# *INTRODUCTION*

# *INTRODUCTION*

## *SUBJECT PROPERTY*

The property being appraised includes Planning Areas 14 through 24, 28, 29 and 31 which comprise Phase II of the Roripaugh Ranch specific plan. Thirteen of the 15 Planning Areas are proposed to be subdivided for detached single-family residential construction while Planning Areas 28 & 29 represent elementary and middle school sites. Ashby USA, LLC has developed the subject land to a nearly blue-topped condition. The subject land requires completion of backbone improvements to be completed to a blue-topped status.

The subject Planning Areas are located east of Butterfield Stage Road, south of Murrieta Hot Springs Road. Roripaugh Ranch is a planned community proposed with a total of approximately 1,743 residential units as well as neighborhood parks, two schools, sports complex, and neighborhood shopping center. Roripaugh Ranch is situated in the northeastern portion of the city of Temecula approximately four and one-half miles east of the Escondido (215) Freeway and five miles east of the Temecula Valley (15) Freeway in the southwest portion of Riverside County, California.

## *PURPOSE AND DATE OF THE APPRAISAL*

The purpose of this appraisal is to estimate the following market values, as of the date of inspection:

1) the ***"as is" value*** of the subject land, including and excluding CFD reimbursement;
2) the ***prospective market value*** of the subject land, assuming completion to a blue-topped status, including and excluding CFD reimbursements; and
3) the ***investment value*** of the subject land to AmTrust Bank, including and excluding CFD reimbursements.

The appraisal is based on current and forecasted market conditions as of May 28, 2008. The effective date for the "as is" value is May 28, 2008, the most recent date of inspection. The date of this report is June 6, 2008. Definitions of the various types of values are found on the following pages.

## *REPORT FORMAT*

This appraisal assignment is a self-contained Complete Appraisal Report (under Standards Rule 2-2, as defined in the Uniform Standards of Professional Appraisal Practice, USPAP) of a Complete Appraisal performed under Standards Rule 1 of the USPAP.

## *INTENDED USE AND USER OF APPRAISAL*

The intended use of this appraisal is to assist AmTrust Bank in internal asset review.

*This appraisal report is prepared for the sole and exclusive use of the appraiser's client, AmTrust Bank. It is expressly prohibited for this appraisal to be used by any other person or entity or for any other purpose.*

## *SCOPE OF THE APPRAISAL*

Under USPAP guidelines, the results of this report are presented in a *self-contained narrative report*. The scope of our work involved the following:

- Reviewed pertinent information on the subject site.
- Reviewed pertinent information on the proposed subject development, including the title report, tract map and site development budgets.
- Gathered and analyzed economic, demographic, and housing market trend information to provide a backdrop for the valuation analysis.
- Gathered and analyzed information on proposed competitive developments to establish the competitive climate likely to exist during the marketing of the subject project.
- Searched the public record and commercial databases, and interviewed local real estate brokers and sales agents to obtain information about land and home sales in the market.
- Confirmed, analyzed and compared the market data to the subject property, and drew conclusions regarding the competitive market position and pricing of the lots and proposed homes, as well as estimated of absorption of the units.
- Based on our analysis of the data collected, estimated the market value of the subject property under the scenarios requested.
- Prepared this appraisal report for submission to the client.

## *USPAP COMPETENCY PROVISION*

We have the knowledge and experience to complete this appraisal assignment and have appraised this property type before. Please see Appraisers' Experience Data in the Addenda for additional information.

## *PROPERTY RIGHTS APPRAISED*

The property rights appraised of the subject site are those of a Fee Simple Estate. A Fee Simple Estate is defined by the *Dictionary of Real Estate Appraisal*, Appraisal Institute, Fourth Edition, 2002, as:

> *Fee Simple Estate.* Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by governmental powers of taxation, eminent domain, police power, and escheat.

## *DEFINITIONS*

***Market Value*** is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(a) Buyer and seller are typically motivated;
(b) Both parties are well informed or well advised, and each acting in what they consider their own best interests;
(c) A reasonable time is allowed for exposure in the open market;
(d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
(e) The price represents the normal considerations of the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

*(Source: Office of the Comptroller of the Currency, Under 12-CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [F].)*

One or more of the following types of market values is (are) discussed in this report.

> ***Market Value "As Is"*** means an estimate of the market value of the property in the condition observed upon inspection and as it physically and legally exists, without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.
>
> ***Source: Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board "Final Rule" 12 CFR Parts 563 and 571; December 21, 1987***

***Prospective future market value upon completion of construction*** means the prospective future value of a property on the date that construction is completed, based upon market conditions forecast to exist as of that completion date.

*Source: Michael Frauenthal & Associates, Inc.*

***Exposure Time*** is defined as the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.

*Source: Appraisal Standards Board of the Appraisal Foundation*

***Finished Sites*** are parcels (or exclusive use areas) which are ready to build on, that is, graded, with all streets, utilities, retaining walls and common area amenities (if any) completed. As used in this appraisal, the term finished site includes all fees payable at the time building permits are issued, with the exception of the building permit itself. These fees, often called development impact fees, are typically charged on a "per square foot" or "per unit" basis, and may include school, water, sewer, park, traffic mitigation, and various other capital improvement fees. Inasmuch as certain items (final pavement cap, sidewalks, and street lights) are not usually completed until after the homes are built, a finished site is best understood as a theoretical concept, rather than as something which physically exists at a given point in time.

*Source: Michael Frauenthal & Associates, Inc.*

***Blue-topped Condition Lots*** are padded lots certified as being within 1/10 of a foot (1.2 inches) of the finished pad elevation. Although the term blue-top technically applies only to the building pads, it is often used to describe an intermediate state of lot development between rough-grade and finished lots. As used in this appraisal, blue-topped lots are defined as having pads certified by a civil engineer as meeting the above requirement, with all off-tract work completed, streets and utility lines at the perimeter of the tract, and interior streets cut but not paved.

*Source:Ibid*

## GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

***Title to Real Estate.*** No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.

***Liens or Encumbrances.*** The property is appraised free and clear of any and all liens or encumbrances, unless otherwise stated.

***Ownership.*** Responsible ownership and competent property management are assumed.

***Information and Data.*** The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.

***Engineering.*** All engineering is assumed to be correct. The plot plans and illustrated material in this report are included only to assist the reader in visualizing the property.

***Hidden Conditions.*** It is assumed that there are no hidden or inapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

***Federal, State and Local Laws.*** It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws, unless non-compliance is stated, defined and considered in the appraisal report.

***Applicable Zoning and Use Regulations.*** It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.

***Licenses, Certificates of Occupancy and Consents.*** It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government, or private entity or organizations have been or can be obtained or renewed, for any use on which the value estimate contained in this report is based, unless otherwise noted.

***Encroachments.*** It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described, and that there are no encroachment or trespass, unless noted in the report.

***Distribution of the Total Value.*** The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

***Right of Publication.*** Possession of this report, or a copy thereof, does not carry with it the right of publication.

***Court Testimony.*** The appraiser, by reason of this appraisal, is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question, unless arrangements have been previously made.

***Advertising.*** Neither all, nor any part of the contents of this report, especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected, shall be disseminated to the public through advertising, public relations, news, sales, or other media, without the prior written consent and approval of the appraiser.

***Fractional Interests.*** Any value estimates provided in the report apply to the entire property, and any proration or division of the total into fractional interests, will invalidate the value estimate, unless proration or division of interests has been set forth in the report.

***Proposed Projects.*** If the subject of this appraisal report is a proposed project, and if only preliminary plans and specifications were available in preparation of this appraisal, the analysis is subject to a review of the final plans and specifications, when available, unless otherwise stated.

***Proposed Improvements.*** Any proposed improvements are assumed to have been completed unless otherwise stipulated; any construction is assumed to conform with the building plans referenced in this report.

***Available Data.*** It is assumed the reader or user of this report has been provided with copies of available building plans, all leases, and amendments, if any, encumbering the property.

***Boundary Survey.*** No legal description or survey was furnished to this appraiser unless otherwise noted in this report. The county tax plat was used to ascertain the physical dimensions and acreage of the property. Should a survey prove these characteristics inaccurate, it may be necessary for this appraisal to be adjusted.

***Forecasts, Projections, and Operating Estimates.*** The forecast, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes in future conditions.

***Hazardous Waste.*** It should be noted that the appraisers are not qualified to detect hazardous wastes and/or toxic materials. Any comment by the appraisers that might suggest that the existence or absence of such substances should not be taken as confirmation or denial of the presence of hazardous wastes and/or toxic materials. Such determination would require an investigation by a qualified expert in the field of environmental assessment.

The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous material may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value.

No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

## *EXTRAORDINARY ASSUMPTIONS AND LIMITING CONDITIONS*

***Title Report.*** A preliminary title report prepared by Orange Coast Title Builder Services, dated February 6, 2007, was provided for our review. The title report revealed dedication of real property to the city of Temecula for public road purposes. The title report also revealed an easement for a multi-use trail. There are development agreements with the city of Temecula sited in the title report as well as statements regarding the annexation of the subject community into existing community facilities districts. The reported easements, facilities districts and development agreements are not considered to adversely impact the marketability or development of the subject lots. No responsibility is taken for any easements or other matters affecting title not disclosed in the title report, and which are not readily apparent from a physical inspection of the property.

***Costs:*** A Roripaugh Ranch Sources & Uses/Project Budget, dated May 26, 2007 was available for our review. The project budget included revised cost estimates to complete the subject to a blue-topped condition as well as completion to date estimates. The project budget however does not include costs to complete the subject lots from a blue-topped to finished status. Intract costs, excluding school fees were previously obtained from Ashby USA LLC. We have estimated school fees based upon information obtained from the Temecula Valley Unified School District and considering the estimated home size for each planning area. We have relied upon these estimates obtained from the various sources in this analysis. *The cost data provided was not independently verified by the appraisers, and is assumed to be correct. Although requested, current budgets to complete the subject infrastructure were not made available to these appraisers. Because of the*

*inverse relationship between development costs and "as is" value, higher costs could result in a significantly lower "as is" value than reported herein.*

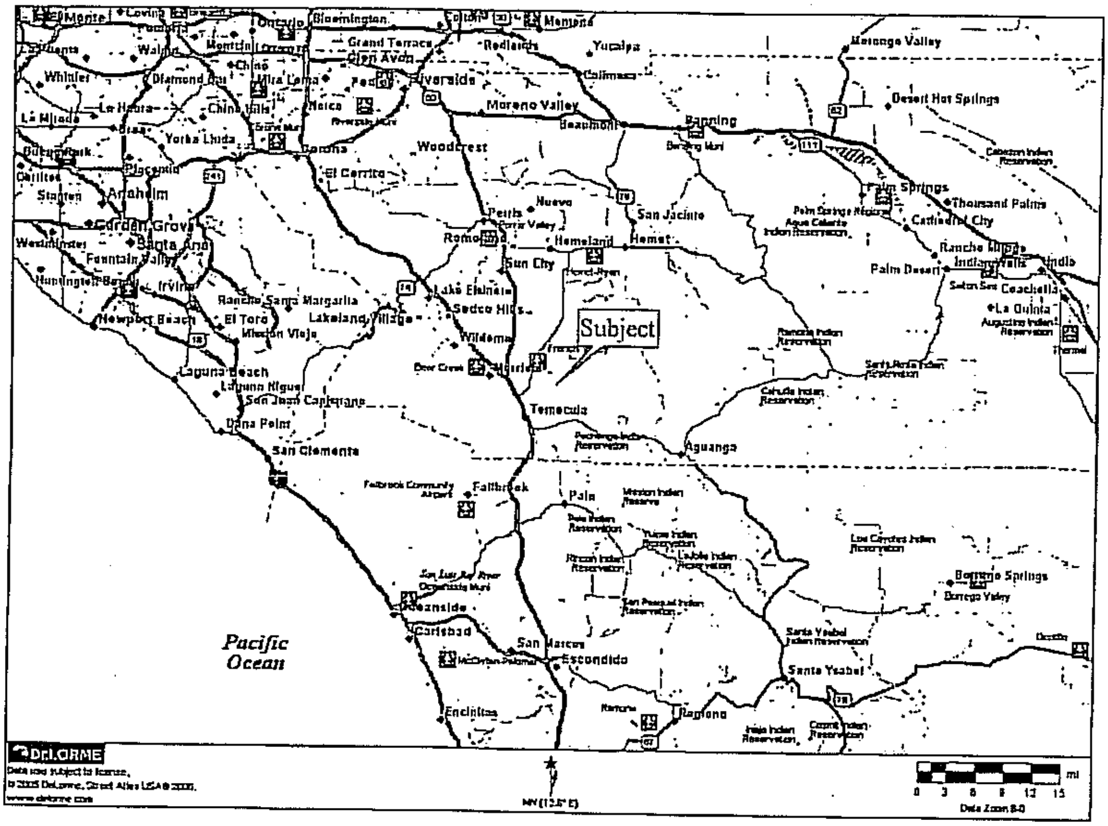
***Established & Pending Special Assessment Districts:*** The subject lots are within multiple community facility districts, including community facilities district no. 03-0 for streets and improvement district nos. U-25 and U-26 of Eastern Municipal Water District. Ashby USA, LLC is proposing additional community facilities districts resulting in an overall effective tax rate of 2.0%. It is important to note that it is a special limiting condition of this report that the effective tax rate for the proposed subject homes is equal to 2.0% of the home price. If this tax rate is changed significantly, the values estimated herein are subject to change.

***Pending Litigation:*** The city of Temecula is currently withholding community facility district funds that are intended to partially finance the completion of the necessary infrastructure at Roripaugh Ranch. City officials reported that litigation proceedings are in process impacting the CFD reimbursements. We have assumed that the CFD funds will be available and released for use in completing the infrastructure at Roripaugh Ranch in a timely manner. If the CFD funds are not as reported or are delayed for a significant period of time, the values estimated herein are subject to revision.

# REGIONAL DESCRIPTION

# REGIONAL DESCRIPTION

The subject property is located in Riverside County, California. Riverside County is about 7,300 square miles in size, with the eastern and western portions separated by a series of mountain ranges, which include the San Jacinto and Santa Ana mountains. The western portion contains almost all of the population, and commercial and industrial activity. The eastern part of the county consists of a series of sparsely settled desert ranges and basins, but also includes Palm Springs and other desert communities. Although agriculture is important to the economy, much of the recent economic growth in Riverside County has been in the commercial, industrial, and tourism sectors. The general location of the subject property is shown in the following map.




## Population

In recent years, Riverside County has been one of the fastest-growing counties in the nation. According to the U.S. Census Bureau, the county had the 2nd-largest numerical increase in the U.S. between July 1, 2004 and July 1, 2005 (76,954), trailing only Maricopa County, Arizona (136,941).

Recent population growth in Riverside County and California is shown in the following table.

| | *Riverside County* | | | *California* | | |
|---|---|---|---|---|---|---|
| **Year** | **Population** | **Average Annual Change** | | **Population** | **Average Annual Change** | |
| 1990 | 1,170,413 | -- | -- | 23,612,925 | -- | -- |
| 1995 | 1,365,500 | 39,017 | 3.1% | 25,422,000 | 361,815 | 1.5% |
| 2000 | 1,545,387 | 35,977 | 2.5% | 33,873,086 | 1,690,217 | 5.9% |
| 2005 | 1,888,311 | 68,585 | 4.1% | 36,728,196 | 571,022 | 1.6% |
| 2006 | 1,966,607 | 78,296 | 4.1% | 37,195,240 | 467,044 | 1.3% |
| 2007 | 2,031,625 | 65,018 | 3.3% | 37,662,518 | 467,278 | 1.3% |
| **Total** | | **861,212** | **73.6%** | | **14,049,593** | **59.5%** |
| **Average*** | | **50,660** | **3.3%** | | **826,447** | **2.8%** |

*Compounded

*Source: California Department of Finance, Demographic Research Unit; population figures are as of January 1, except for 2000 figures, which are as of April 1.*

Riverside County's population has grown from 1,170,413 in 1990 to 2,031,625 as of January 1, 2007. The gain equals 861,212, or an average of almost 51,000 per year. In percentage terms, the county has grown by 73.6% over the past 17 years, or by an average of 3.3% per year, compounded. This is higher than the state's 2.8% growth rate over the same period. County population growth averaged 3.1% per year in the early 1990s, fell to 2.5% per year in the second half of the decade, and accelerated to an average of 4.0% per year since 2000. Growth remained steady during 2005, before slowing to 3.3% in 2006, but the county still added over 65,000 new residents. The county's population is expected to continue expanding, as high housing prices push homebuyers east from Orange, San Diego, and Los Angeles Counties into the Inland Empire.

As shown in the following table, state figures project a 38% increase in Riverside County's population between 2000 and 2010 and a 79% increase by 2020. This growth will fuel continuing demand for new homes.

| **RIVERSIDE COUNTY POPULATION PROJECTIONS** | | | |
|---|---|---|---|
| **Year** | **Projected Population** | **Increase Over Year 2000** | |
| 2010 | 2,125,537 | 580,150 | 38% |
| 2015 | 2,420,686 | 875,299 | 57% |
| 2020 | 2,773,431 | 1,228,044 | 79% |

*Source: California Department of Finance, Demographic Research Unit*

## *Employment*

### *Historical Trends*

Riverside and San Bernardino Counties form the Riverside-San Bernardino Metropolitan Statistical Area (MSA). Historical employment trends for this MSA are summarized in the following ***Table 1***. As shown therein, "all industries" employment grew from 735,200 in 1990 to 1,288,400 in 2006, before declining slightly to 1,285,500. The total gain was 550,300, or 75% over the 17 years. This equates to an annual compound increase of 3.3%. New jobs were created every year in the Riverside-San Bernardino County area until 2007.

Growth was relatively balanced, with goods-producing industries gaining 68% and service-producing industries 80%. The table is sorted within the goods-producing and service-producing sectors based on percentage growth. Leading the gainer in the goods-producing sector since 1990 was construction adding 112,800 jobs reflecting a 91% increase. Manufacturing added more total jobs (118,900) reflecting a 52% increase.

The largest gainer within the service-producing sector was professional and business services adding 86,400 jobs reflecting an increase of 146% over the past 17 years. Trade, transportation and added more jobs (149,900) reflecting an increase of 101%.

Almost all employment sectors experienced strong growth over the past 17 years in the Riverside-San Bernardino County area increasing at least 50%. Only information recorded a gain of less than 50% increasing 13%. Farming is the only employment sector experiencing a decline in the area during the past 17 years.

The large employment gain in the service-producing sector is a reflection of the population growth in the Riverside-San Bernardino County area during the past two decades. As the housing market expanded in the area the need for services also expanded fueling the employment growth. As population in the area expands, employment is also anticipated to increase.

### *Recent Trends*

The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 6.8% in April 2008, down from a revised 7.2% in March 2008, but above the year-ago estimate of 5.2%. This compares with an unadjusted unemployment rate of 6.1% for California and 4.8% for the nation during the same period. The unemployment rate was 7.1% for Riverside County and 6.6% in San Bernardino County.

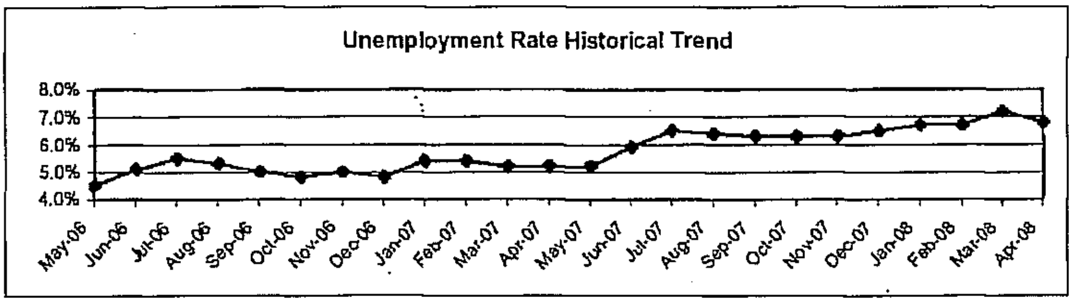
**TABLE 1**

**RIVERSIDE-SAN BERNARDINO-ONTARIO MSA ANNUAL AVERAGE LABOR FORCE AND INDUSTRY EMPLOYMENT**

**MARCH 2007 BENCHMARK**

| | | | | | | | Change | | % Change | |
|---|---|---|---|---|---|---|---|---|---|---|
| TITLE | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 | Total | Avg/Year | Total | Avg/Year |
| Civilian Labor Force | 1,172,400 | 1,283,200 | 1,419,700 | 1,655,600 | 1,770,500 | 1,794,800 | 622,400 | 36,612 | 53% | 2.54% |
| Civilian Employment | 1,097,900 | 1,172,400 | 1,347,900 | 1,561,100 | 1,684,400 | 1,688,900 | 591,000 | 34,765 | 54% | 2.57% |
| Civilian Unemployment | 74,500 | 110,800 | 71,800 | 94,500 | 86,100 | 105,900 | 31,400 | 1,847 | 42% | 2.09% |
| Civilian Unemployment Rate | 6.4% | 8.6% | 5.1% | 5.7% | 4.9% | 5.9% | 0 | 0% | -7% | -0.44% |
| | | | | | | | | | | |
| Total All Industries | 735,200 | 801,700 | 1,010,100 | 1,240,300 | 1,288,400 | 1,285,500 | 550,300 | 32,371 | 75% | 3.34% |
| *Gained Jobs* | | | | | | | | | | |
| Total Goods Producing | 138,800 | 135,000 | 200,900 | 245,700 | 254,900 | 233,000 | 94,200 | 5,541 | 68% | 3.09% |
| Construction | 59,100 | 44,800 | 79,900 | 123,300 | 129,500 | 112,800 | 53,700 | 3,159 | 91% | 3.88% |
| Manufacturing | 78,300 | 89,000 | 119,700 | 121,000 | 124,000 | 118,900 | 40,600 | 2,388 | 52% | 2.49% |
| Natural Resources and Mining | 1,400 | 1,300 | 1,300 | 1,400 | 1,400 | 1,400 | 0 | 0 | 0% | 0.00% |
| Total Service Providing | 573,800 | 644,800 | 787,500 | 976,300 | 1,016,400 | 1,035,700 | 461,900 | 27,171 | 80% | 3.53% |
| Professional and Business Services | 59,100 | 68,200 | 96,800 | 133,200 | 142,200 | 145,500 | 86,400 | 5,082 | 146% | 5.44% |
| Trade, Transportation and Utilities | 148,600 | 172,500 | 211,500 | 275,900 | 289,000 | 298,500 | 149,900 | 8,818 | 101% | 4.19% |
| Educational and Health Services | 69,300 | 85,900 | 101,900 | 119,900 | 122,700 | 126,500 | 57,200 | 3,365 | 83% | 3.60% |
| Other Services | 24,200 | 27,400 | 34,800 | 40,800 | 42,500 | 42,600 | 18,400 | 1,082 | 76% | 3.38% |
| Leisure and Hospitality | 75,700 | 83,700 | 100,600 | 122,600 | 128,700 | 131,700 | 56,000 | 3,294 | 74% | 3.31% |
| Financial Activities | 33,200 | 32,100 | 35,700 | 49,000 | 51,800 | 50,100 | 16,900 | 994 | 51% | 2.45% |
| Government | 150,200 | 162,600 | 192,100 | 220,400 | 224,200 | 225,700 | 75,500 | 4,441 | 50% | 2.42% |
| Information | 13,500 | 12,300 | 14,300 | 14,500 | 15,200 | 15,200 | 1,700 | 100 | 13% | 0.70% |
| *Lost Jobs* | | | | | | | | | | |
| Total Farm | 22,600 | 21,800 | 21,700 | 18,300 | 17,200 | 16,800 | -5,800 | (414) | -26% | -1.73% |

Recent employment trends for the Riverside-San Bernardino-Ontario MSA are summarized in the following table. The following table summarizes month-to-month unemployment trends beginning in May 2006. The table additionally summarizes month-over employment trends as well as year-over trends by employment sector for April 2008.




| Industry | Mar-2008 Revised | Apr-2008 Prelim. | Change | | Apr-2007 | Apr-2008 Prelim | Change |
|---|---|---|---|---|---|---|---|
| Total Jobs | 1,271,600 | 1,272,700 | 1,100 | | 1,290,300 | 1,272,700 | (17,600) |
| Farm Jobs | 18,000 | 18,700 | 700 | | 18,400 | 18,700 | 300 |
| Nonfarm Jobs | 1,253,600 | 1,254,000 | 400 | | 1,271,900 | 1,254,000 | (17,900) |
| Natural Resources and Mining | 1,400 | 1,300 | (100) | | 1,300 | 1,300 | 0 |
| Construction | 99,400 | 98,400 | (1,000) | | 114,200 | 98,400 | (15,800) |
| Manufacturing | 113,900 | 113,100 | (800) | | 119,300 | 113,100 | (6,200) |
| Trade, Transportation and Utilities | 293,500 | 293,800 | 300 | | 295,600 | 293,800 | (1,800) |
| Information | 14,800 | 14,700 | (100) | | 15,200 | 14,700 | (500) |
| Financial Activities | 48,100 | 47,900 | (200) | | 50,700 | 47,900 | (2,800) |
| Professional and Business Services | 143,100 | 143,500 | 400 | | 144,100 | 143,500 | (600) |
| Educational and Health Services | 130,100 | 130,600 | 500 | | 125,800 | 130,600 | 4,800 |
| Leisure and Hospitality | 132,900 | 133,500 | 600 | | 134,500 | 133,500 | (1,000) |
| Other Services | 42,800 | 42,700 | (100) | | 42,600 | 42,700 | 100 |
| Government | 233,600 | 234,500 | 900 | | 228,600 | 234,500 | 5,900 |

Notes: Data not adjusted for seasonality. Data may not add due to rounding.
Labor Force data will be revised month to month
Additional data are available on-line at www.labormarketinfo.edd.ca.gov

Between March 2008 and April 2008, total nonfarm employment rose by 400 jobs to reach 1,254,000 jobs. Total farm employment increased by 700 jobs, or 3.9%.

- Government posted the greatest nonfarm month-over gain, adding 900 jobs. Local government increased by 800 jobs, mostly in local government education (up 700). Federal government added 100 jobs, while state government reported no change in employment levels over the month.

- Leisure and hospitality gained 600 jobs. Accommodation and food service grew by 800 jobs, which were offset by a decline of 200 jobs in arts, entertainment, and recreation.

- Construction reported the greatest month-over decline, down 1,000 jobs. Specialty trade contractors decreased 1,200 jobs, which was offset by an increase of 200 jobs in heavy and civil engineering construction. Construction of buildings reported no change in employment levels over the month.

Between April 2007 and April 2008, total nonfarm employment declined 17,900 jobs, or -1.4%. Total farm employment gained 300 jobs, or 1.6%.

- Government posted the greatest year-over gain, adding 5,900 jobs. Local government (up 4,700 jobs) accounted for most of the growth, mostly in local government education (up 3,600 jobs). State government added 900, while federal government increased by 300 jobs.

- Educational and health services grew by 4,800 jobs. Health care and social assistance added 3,900, mainly in hospitals (up 2,400 jobs) and ambulatory health care services (up 1,000 jobs). Educational services increased by 900 jobs.

- Construction reported the greatest year-over decline, down 15,800 jobs. The specialty trade contractors sector (down 13,300 jobs) accounted for most of the slowdown in this sector. Construction of buildings decreased by 2,600 jobs, while heavy and civil engineering construction increased by 100 jobs.

Service employment accounts for almost 4 in 5 jobs in the MSA. The region's largest employers are trade/transportation and government, which each account for about two in five jobs. Professional/business, leisure/hospitality, construction, education/health, and manufacturing come next, each accounting for about one in ten jobs in the MSA. Construction had become increasingly important

to the local economy accounting for about 10.0% of all jobs a couple of years ago and has now declined to 8.0% of total employment.

In years past, Riverside and San Bernardino Counties have served primarily as "bedroom communities," with residents for the most part commuting to jobs in nearby Orange, Los Angeles and San Diego Counties. While this remains true for many Inland Empire residents, the above data shows that an increasing number are finding employment locally.

## *Transportation*

Transportation is vital to an area's growth and economic expansion. The following transportation facilities are available to Riverside County residents and businesses.

Riverside County is connected to the rest of southern California by several freeways, including California 91, a heavily-traveled commuter route to Orange County; Interstate 15, connecting Riverside County with San Diego County to the south and San Bernardino County to the north; Interstate 215, an easterly alternative to I-15; Interstate 10, which connects the desert communities in easterly Riverside County with Los Angeles County to the west; and State Highway 60, which parallels Interstate 10 on the south. State highways include Route 74, connecting Lake Elsinore with south Orange County, Route 79, which serves the Hemet area, and Route 71, which joins the 60 and 91 freeways in westerly Riverside and San Bernardino Counties.

Traffic congestion from commuters traveling to and from Orange County has been eased (though not eliminated) by the addition of toll lanes to Highway 91 and the opening of the Eastern Transportation Corridor (Highway 241), a toll road providing alternative (and more direct) access from Highway 91 to the airport area and south Orange County.

A branch line of the Santa Fe Railroad serves Riverside County. Eleven regular daily direct carriers connect the region by truck to Los Angeles. Local bus service is provided by the Riverside Transit Agency, and regional service by Greyhound. Dramatic increases in the volume of goods flowing through the nearby ports of Los Angeles and Long Beach, approximately 70 miles to the west, have spurred the Inland Empire's development as a storage and distribution hub serving the western United States.

Ontario International Airport provides regional, national, and international air service with several major carriers, and has been a boon to the Inland Empire's economy. Riverside Municipal Airport has general aviation facilities and a 5,400-foot runway. Palm Springs municipal airport accommodates six major public carriers on its 8,500-foot runway. County owned Hemet-Ryan

Airport has general aviation facilities and a 4,300-foot runway, while privately owned Perris Valley Airport has general aviation facilities and a 2,720-foot runway.

### *Recreation*

Riverside County abounds with public recreation facilities. Throughout the county, several hundred acres have been developed with public parks as well as other recreational facilities including public swimming pools, golf courses, and movie theaters. Within 1.5 hours' driving time are the desert resort communities of Palm Springs and Palm Desert, the San Bernardino Mountains, and Orange County beaches. Other recreational attractions in the county include Lake Perris State Park, Riverside Museum, Riverside Art Center, and The Living Desert Reserve, located in Indian Wells.

## *COUNTY SUMMARY*

Riverside County and the Inland Empire in general, continue to experience growth in population; however; employment has declined over the past 12 months. The area has matured from a region of few jobs, offering little more than low home prices, to one with a diversified and mature economy offering a wide range in employment and housing opportunities. The current crisis in the credit markets has negatively impacted the Inland Empire market area; however, high prices in the coastal counties are anticipated to continue to drive more businesses and residents inland. With ample land available to accommodate future expansion, the Inland Empire is expected to continue to grow for the foreseeable future.

# *HOUSING MARKET OVERVIEW*

## *RESIDENTIAL LAND MARKET*

Conditions in the local housing market have a significant impact on the demand for, and value of, residentially-zoned land in the Southern California market area. Demand for residential land in the market had been high during 2004 and 2005. As home prices climbed, builders had found themselves paying more and more for land suitable for housing.

The trend was magnified by a dwindling supply of buildable land in some market areas. During past years, developers had been competing for a shrinking supply of developable residential land in some areas. The growth of the market had been constrained primarily by the difficulty in finding reasonably priced land and the cost and difficulty of obtaining entitlements.

The continuing crisis in the credit markets has significantly disrupted the new housing market and demand for residential land by homebuilding entities has fallen sharply during the past year in most Southern California areas. The public builders that dominated the Southern California market are trying to reduce their land inventories. The motivation to reduce land holdings is two fold. First, many residential sites are no longer feasible to develop as site improvement costs are higher than finished lot values. Second, builders are currently able to obtain refunds on taxes paid on high profits during the past few years by liquidating land inventories at discounted prices.

The general consensus among land brokers active in the Southern California market area is that active buyers today are investment groups looking for a deal. These groups are looking for partially improved land at significant discounts looking to pay less than improvement costs incurred to date. These buyers are willing to hold the land for five years or more for future development opportunity.

## *HOUSING MARKET*

### *California Housing Market Trends*

The following information was obtained from the California Association of Realtors (CAR)® web site. In October 2007, C.A.R published their California Housing Market Forecast for 2008. They projected a 9% decline in existing single-family home sales for 2008, and forecasted a 4.0% decrease in median price. They reported that tighter credit standards, affordability concerns and a continued standoff between buyers and sellers will contribute to continued weakness in the market going into next year. C.A.R further reported that sales could decline more steeply in 2008 if the

current liquidity crunch in the mortgage markets has a longer-than-expected duration or interest rates unexpectedly increase.

According to the C.A.R. forecast, more affordable regions such as the Central Valley and Inland Empire will experience greater softness in the resale market because of the large number of new homes anticipated in the near future. Higher priced regions of the state, such as the San Francisco Bay Area and parts of Southern California will react more to affordability constraints.

High priced markets, those with median prices above $1,000,000 will show less stress in comparison to lower priced markets. Lower priced markets will continue to suffer from the sub-prime crisis, tighter underwriting standards and competition from new home developments where price-cutting has been even more severe.

C.A.R. economists projected a 23% decline in sales in 2007 to 367,500 units compared with 2006, and an increase of 3.5% in the statewide median home price to $576,000. However, the projected increase in the statewide median home price stands in contrast to the situation in most counties, where slight to modest year-to-year percentage declines have become more prevalent and are anticipated for next year.

The last time year-over sales levels were below the projected level for 2007 was 1995 while the last time sales level fell below levels projected for 2008 was 1985. The last time the median price fell more than 4.0% (2008 projection) was in 1993.

### *Southern California Market Trends*

According to a May 2008 press release from DataQuick Information Systems, Southern California home sales surged in April 2008 to the highest level since August 2007 as bargain shoppers took advantage of price slashing. Although some higher-end coastal markets also posted gains, the swell in transactions mainly reflects more sales of homes under the $500,000 in inland areas where depreciation and foreclosure have been greatest.

DataQuick, a subsidiary of Vancouver-based MacDonald Dettwiler and Associates, monitors real estate activity nationwide and provides information to consumers, educational institutions, public agencies, lending institutions, title companies and industry analysts.

A total of 15,615 new and resale houses and condos sold in Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties in April 2008. The April 2008 sales activity represents a 22% increase from the previous month, but down 19% from April 2007, according to DataQuick Information Systems.

Sales from March to April have risen on average 1.2% since 1988, when DataQuick's statistics begin. Although last month's sales total was the highest for any month since August 2007, when 17,755 homes sold, it was still the weakest April since April 1995, when 15,303 homes sold, and the second-lowest April on record. April 2008 was 38% below the April average of 25,311 sales.

Post-foreclosure homes continued to play a major role in the Southland market. Of all the homes that resold in April 2008, 37.5% had been foreclosed on at some point in the prior 12 months, compared with a revised 35.8% in March 2008 and 4.6% a year ago. Across the six-county area, "foreclosure resales" ranged from 26.9% of resale activity in Orange County to 52.7% in Riverside County.

April's upswing in sales was most pronounced for homes priced under $500,000, which accounted for two-thirds of the Southland's sales gain over March. Riverside County, the epicenter of Southland foreclosure activity and price declines, posted the region's only year-over-year sales increase, the first in two years.

Zip codes showing relatively large annual gains in sales of existing houses included those in San Jacinto and Lake Elsinore in Riverside County, Victorville in San Bernardino County, Lake Forest and Anaheim in Orange County, Lancaster in Los Angeles County and Chula Vista in San Diego County.

"Quite a few more buyers stepped off the sidelines last month to snap up homes at substantial discounts relative to the market's short-lived peak," said Marshall Prentice, DataQuick president. "It's no surprise, given the magnitude of the price declines in inland areas and the fact sales have been so amazingly low for so long. We continue to look for evidence of a sales bounce in the mid-priced and higher-end markets along the coast. If the higher conforming loan limits are making a difference in those areas it's certainly not a large one, at least not as of the end of April."

The median price paid for a Southland home was $385,000 last month, unchanged from March 2008, but down 23.8% from the peak median of $505,000 in April 2007. The peak was reached several times last spring and summer. April 2008 was the first in eight months that the median price did not decline on a month-to-month basis.

Before the credit crunch hit in August 2007, nearly 40% of Southland sales were financed with jumbo loans. In April 2008, jumbo loans accounted for 15% of Southland sales, about the same as in March 2008.

The typical monthly mortgage payment that Southland buyers committed themselves to paying was $1,716 last month, down from $1,816 the previous month, and down from $2,356 a year ago. Adjusted for inflation, the current payment is 18.3% lower than the spring of 1989, the peak of the prior real estate cycle. It is 33.1% below the current cycle's peak in June 2006.

Indicators of market distress continue to move in different directions. Foreclosure activity is at record levels, financing with adjustable-rate mortgages are at a six-year low. Down payment sizes and flipping rates are stable, non-owner occupied buying activity is increasing, DataQuick reported.

## *LENDING ENVIRONMENT*

Troubles in the credit industry continue to grow as the secondary market for mortgages has nearly disappeared. Investors are worried about the value of loans and rising delinquencies and defaults. Mortgage lenders typically rely on the secondary markets to borrow money to make more loans. The problems started as subprime mortgages, loans given to customers with sub-par credit histories, started going delinquent and defaulting at faster rates. The problems have since spread to the broader mortgage market, making investors nervous "non-conforming" loans that cannot be purchased by Fannie Mae or Freddie Mac. In contrast, "conforming" loans are considered safer because Fannie Mae and Freddie Mac are government-sponsored entities.

There has been some major fallout due to the dramatic shift in the market. For example, Countrywide Financial, the nation's No. 1 mortgage lender, recently tapped an $11.5 billion line of credit as the global financial crisis curbed access to short-term financing. Countrywide turned to the emergency loan, which it said was provided by a group of 40 banks, a day after Merrill Lynch & Co. raised the prospect of bankruptcy for the lender. Due to deep concerns regarding its solvency, Countrywide recently agreed to be purchased by Bank of America.

Countrywide is not alone, as most other lending institutions are also adjusting to the rapidly changing credit environment. First Magnus Financial Corp., the second-largest privately held U.S. mortgage lender, recently stopped funding new mortgages due to concerns regarding the demise of the U.S. housing market, which some characterize as potentially the worst in the nation's history. New Century Financial Corp. and American Home Mortgage Investment Corp. filed for bankruptcy last year. They joined about 70 companies with links to the mortgage market that have had to close or put themselves up for sale since the start of last year.

The result of the tightening lending criteria and end of exotic loan programs is that homebuyers are facing fewer options and higher costs, which could further slow an already soft market. While the entry level market appears to be most affected by the sub-prime fallout, there are indications that upper end home sales are also affected. For example, luxury homebuilder Toll Brothers fourth-quarter 2007 results show a sharp drop in the number of new homes sold and an even deeper plunge in the average price of the home it was able to sell, as buyers canceled orders for its more expensive offerings. Net signed contracts, which reflect new contracts less canceled orders, fell 35% to 656 homes, while the value of those new contracts plunged 48% to about $365.2 million. Toll Brothers said higher-priced homes suffered the worst cancellation rates, as the average price of the 417 canceled contracts during the quarter was $788,000. That trimmed the average price of the net signed contracts in the period at $557,000 per unit.

## *Foreclosures*

According to DataQuick Information System's April 2008 report, the number of California homes going into foreclosure jumped in the 1st quarter 2008 to its highest level in more than 15 years. The increase in foreclosure activity is attributed to declining home values and a pool of at-risk mortgages that were originated in 2005 and 2006.

They reported that a total of 113,676 Notices of Default (NoDs) were filed during the January – March period, up 39.4% from the previous quarter, and up 143.1% from 1st quarter 2007. Last quarter's default level was the highest in DataQuick's statistics, which date back to 1992.

DataQuick reported that most of the loans that went into default last quarter were made between August 2005 and October 2006. The median age was 23 months, up from 16 a year earlier, indicating that the pool of at-risk home loans is getting larger.

On primary mortgages statewide, homeowners were a median five months behind on their payments when the lender started the default process. The borrowers owed a median $11,474 on a median $346,750 mortgage. On lines of credit, homeowners were a median eight months behind on their payments. Borrowers owed a median $3,512 on a median $60,000 credit line. Actual credit line balances were not available.

DataQuick, a subsidiary of Vancouver-based MacDonald Dettwiler and Associates, monitors real estate activity nationwide and provides information to consumers, educational institutions, public agencies, lending institutions, title companies and industry analysts. DataQuick provides online

access to property information, including default notices. Notices of Default are recorded at county recorders offices and mark the first step of the formal foreclosure process.

The default numbers were a record in almost all of the state's 58 counties. The notable exception being Los Angeles County, which was particularly hard hit by the recession of the early 1990s. During last quarter, the county's 20,339 defaults represented 94.8 percent of its peak quarter back in Q1 of 1996, which saw 21,444 defaults.

Of the homeowners in default, an estimated 32% emerge from the foreclosure process by bringing their payments current, refinancing, or selling the home and paying off what they owe. A year ago it was 52%. The increased portion of homes lost to foreclosure reflects the slow real estate market, as well as the number of homes bought during the height of the market with multiple-loan financing, which makes "work-outs" difficult.

Defaults in the Southern California regions are summarized in the following table.

| Notices of Default (Houses and condos) | | | |
|---|---|---|---|
| *County/Region* | *1st Q. 2008* | *1st Q. 2007* | *% Chg.* |
| Los Angeles | 20,339 | 8,843 | 130% |
| Orange | 7,082 | 2,644 | 168% |
| San Diego | 8,975 | 3,931 | 128% |
| *Riverside* | *15,022* | *5,750* | *161%* |
| San Bernardino | 11,149 | 4,357 | 156% |
| Ventura | 2,176 | 965 | 126% |
| SoCal* | 65,309 | 26,748 | 144% |
| Statewide | 113,676 | 46,760 | 143% |
| *Source: DataQuick Information Systems* | | | |

Data Quick reported that statewide, Trustees Deeds recorded, or the actual loss of a home to foreclosure, totaled 47,171 during the 1st quarter of 2008. That was the highest number in DataQuick's statistics, which go back to 1988. Last quarter was up 48.9% from the previous quarter, and up 327.6% from last year's first quarter. The peak of the prior foreclosure cycle was 15,418 in 3rd quarter 1996, while the low was 637 in the 2nd quarter of 2005.

## *RESALE HOUSING MARKET*

The following information on the state and local resale markets was obtained from the California Association of Realtors (CAR)® web site. As of April 2008, the median single-family home price in California was $403,870, a 2.6% decrease from the prior month, and a 32.0% decrease from the

prior year. The Riverside/San Bernardino area had a median price of $278,800 as of April 2008, a 0.8% increase from the prior month, but a 29.9% decrease from one year ago. Home sales activity has picked up, increasing 2.5% in April in California compared with the same period a year ago. Home sales in the Riverside/San Bernardino area increased 32.7% when compared to April 2007. The CAR resale price and sales data is summarized in the attached ***Table 2.***

"Home sales registered a 2.5% year-to-year gain compared with April 2007, ending a 30-month string of year-to-year percentage decreases that began in October 2005," said C.A.R. President William E. Brown. "This is not to say that the credit crunch that has contributed to the sales decline has disappeared. Both tighter underwriting standards and the ongoing effects of the credit/liquidity crunch continue to constrain sales."

Closed escrow sales of existing, single-family detached homes in California totaled 366,720 in April 2008 at a seasonally adjusted annualized rate, according to information collected by C.A.R. from more than 90 local REALTOR® associations statewide. Statewide home resale activity increased 2.5% from the revised 357,640 sales pace recorded in April 2007. The statewide sales figure represents what the total number of homes sold during 2008 would be if sales maintained the April pace throughout the year. It is adjusted to account for seasonal factors that typically influence home sales.

The median price of an existing, single-family detached home in California during April 2008 was $403,870, a 32.0% decrease from the revised $594,110 median for April 2007, C.A.R. reported. The April 2008 median price fell 2.6% when compared with March's revised $414,640 median price.

"Significant price declines are spurring home sales to bargain hunters and first-time buyers at the middle- and low-end of the market, especially in areas with a concentration of distressed properties," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young.

"A year ago, homes for sale under $500,000 accounted for 40% of sales, the middle segment ($500,000 to $1 million) made up 45% and the over $1 million segment captured 15% of the market. As of April 2008 that has shifted to 64%, 26% and 10%, respectively, as the crunch severely constrained funding to the market over $500,000, with a correspondingly dramatic decline in sales."

According to the California Association of Realtors, as of April 2008 there was a 9.2 months supply of unsold existing, single-family detached homes in California. In comparison with April 2007 there was an 11.3 months supply. The median number of days it took to sell a single-family home was 52 days in April 2008, compared with 53 days for the same period a year ago.

TABLE 2
REGIONAL SALES AND PRICE ACTIVITY*
Regional and Condo Sales Data Not Seasonally Adjusted

| | Median Price | % *Price* Change Vs. | | % *Sales* Change Vs. | |
|---|---|---|---|---|---|
| | Apr-08 | Mar-08 | Apr-07 | Mar-08 | Apr-07 |
| **Statewide** | | | | | |
| Calif. (sf) | $403,870 | -2.6% | -32.0% | 15.0% | 2.5% |
| Calif. (condo) | $364,660 | 0.8% | -18.2% | 19.1% | -25.3% |
| | | | | | |
| **C.A.R. Region** | | | | | |
| Central Valley | N/A | N/A | N/A | N/A | N/A |
| High Desert | $210,860 | 0.1% | -33.6% | 22.6% | 33.7% |
| Los Angeles | $435,500 | 0.3% | -27.1% | 23.4% | 3.3% |
| Monterey Region | $495,240 | -10.7% | -36.2% | 61.3% | 19.4% |
| Monterey County | $399,900 | -7.0% | -47.4% | 69.6% | 65.3% |
| Santa Cruz County | $675,000 | 4.6% | -13.0% | 48.7% | -19.3% |
| Northern California | $346,260 | -3.0% | -13.1% | 27.8% | 5.0% |
| Northern Wine Country | $454,210 | -0.9% | -25.4% | 29.0% | 1.7% |
| Orange County | $578,010 | -2.3% | -22.6% | 34.5% | 14.8% |
| Palm Sprs/Lwr Desert | $304,020 | -2.4% | -19.5% | 30.0% | 7.7% |
| **Riverside/S. Bernardino** | **$278,800** | **0.8%** | **-29.9%** | **12.7%** | **32.7%** |
| Sacramento | $235,940 | -8.7% | -34.8% | 35.6% | 68.5% |
| San Diego | $443,520 | -0.9% | -27.4% | 41.0% | 1.2% |
| San Francisco Bay | $691,930 | -1.8% | -17.9% | 22.1% | -12.1% |
| San Luis Obispo | $450,000 | -3.7% | -25.9% | 29.4% | 15.6% |
| Santa Barbara County | $527,780 | -8.4% | -36.0% | 22.7% | 0.0% |
| Santa Barbara S. Coast | $1,170,000 | 2.6% | -20.7% | 11.6% | -15.4% |
| No. S. Barbara County | $301,850 | -7.7% | -25.7% | 30.8% | 19.7% |
| Santa Clara | $752,500 | -7.1% | -13.0% | 14.6% | -26.0% |
| Ventura | $496,530 | -1.5% | -28.2% | 43.2% | 0.5% |

* Based on closed escrow sales of single-family, detached homes only (no condos). Reported month-to-month changes in sales activity may overstate actual changes because of the small size of individual regional samples. Movements in sales prices should not be interpreted as measuring changes in the cost of a standard home.

sf = single-family, detached home

*Source: California Association of REALTORS®*

Interest rates remain at low levels with the average 30-year fixed-mortgage interest rate at 5.92% during April 2008, compared with 6.18% in April 2007, according to Freddie Mac. Adjustable-mortgage interest rates averaged 5.19% in April 2008 compared with 5.45% in April 2007.

Housing affordability in California and the region had decreased significantly in recent years as home prices surged. The drop was softened by mortgage rates, which fell to the lowest level in several decades. However, as more people could afford homes prices surged again until the current credit crunch. Home prices have declined significantly during the past several months having a positive impact on affordability.

C.A.R. began producing its Housing Affordability Index (HAI) in 1984. At that time, fixed-rate mortgages were the prevailing form of financing a home purchase, while the calculations used to produce the HAI reflected a 20% down payment. The methodology also assumed a monthly payment for principal, interest, taxes and insurance that was no more than 30% of a household's income.

However, in the more than two decades since CAR first introduced the Housing Affordability Index, the mortgage finance landscape has changed dramatically. The range of mortgage products available to buyers as well as underwriting criteria has changed. Thus, C.A.R. developed a new index measuring affordability for first-time homebuyers to better reflect the realities of today's real estate market.

CAR's newly developed index, the First-time Buyer Housing Affordability Index (FTB-HAI), measures the percentage of first-time buyer households that can afford to purchase a home in California. The Index is the most fundamental measure of housing well-being for first-time buyers in the state, and gauges affordability for first-time buyers in California.

The index indicates that the percentage of first-time buyers in California able to afford a median-priced home stood at 44% as of the 1$^{st}$ quarter of 2008, compared with 26% for the same period a year ago. The minimum household income first-time buyers needed to purchase a home of $356,350 in California in the 1$^{st}$ quarter of 2008 was $67,830, based on an adjustable interest rate of 5.65% and assuming a 10% down payment. First-time buyers typically purchase a home equal to 85% of the prevailing median price. The monthly payment including taxes and insurance was $2,260 for the 1$^{st}$ quarter of 2008.

In the Riverside/San Bernardino County market area, the index indicates that 57% of households could afford a median-priced home as of the 1$^{st}$ quarter of 2008, up 20% in comparison to one year ago. This current affordability rate compares to Los Angeles County at 35%, Orange County at 36%, San Diego County at 41% and the entire Southern California area at 43%. Housing affordability figures for the state are summarized in the attached ***Table 3***.

TABLE 3
CALIFORNIA HOUSING AFFORDABILITY INDEX *

| | | 1Q 2008 | 4Q 2007 | 1Q 2007 | Change From Last Year |
|---|---|---|---|---|---|
| | California | 44 | 33 | 26 | 18 |
| | California - Condos | 50 | 42 | 37 | 13 |
| | United States | 69 | 65 | 63 | 6 |
| -- | | | | | |
| **Rank** | **C.A.R. Region** | | | | |
| 1 | High Desert | 64 | 54 | 44 | 20 |
| 2 | Sacramento County | 64 | 53 | 43 | 21 |
| 3 | **Riverside/S. Bernardino** | **57** | **46** | **37** | **20** |
| 4 | Northern California | 48 | 42 | 37 | 11 |
| 5 | Southern California | 43 | 32 | 25 | 18 |
| 6 | Ventura County | 43 | 31 | 26 | 17 |
| 7 | Palm Sprgs/Lwr Desert | 42 | 38 | 32 | 10 |
| 8 | San Diego County | 41 | 31 | 23 | 18 |
| 9 | Northern Wine Country | 39 | 33 | 24 | 15 |
| 10 | Orange County | 36 | 28 | 25 | 11 |
| 11 | Los Angeles County | 35 | 27 | 21 | 14 |
| 12 | Santa Barbara Area | 33 | 21 | 12 | 21 |
| 13 | San Luis Obispo County | 32 | 28 | 21 | 11 |
| 14 | Santa Clara County | 31 | 24 | 27 | 4 |
| 15 | San Francisco Bay | 30 | 23 | 24 | 6 |
| 16 | Monterey Region | 29 | 21 | 19 | 10 |
| **Rank** | **County** | | | | |
| 1 | Merced | 61 | 51 | 46 | 15 |
| 2 | San Bernardino | 59 | 46 | 41 | 18 |
| 3 | Fresno | 56 | 47 | 44 | 12 |
| 4 | **Riverside** | **55** | **42** | **35** | **20** |
| 5 | Sonoma | 41 | 36 | 26 | 15 |
| 6 | Alameda | 34 | 27 | 25 | 9 |
| 7 | Contra Costa | 31 | 22 | 19 | 12 |
| 8 | Santa Cruz | 28 | 22 | 20 | 8 |
| 9 | Marin | 24 | 22 | 21 | 3 |
| 10 | San Francisco | 23 | 20 | 18 | 5 |
| 11 | San Mateo | 22 | 19 | 19 | 3 |

* C.A.R.'s First-time Buyer Housing Affordability Index (FTB-HAI) measures the percentage of first-time buyer households that can afford to purchase a home.

*Source: California Association of REALTORS®*

### *Combined Riverside & San Bernardino Counties*

The subject property is situated in the Inland Empire area of Southern California. The Inland Empire generally consists of Riverside and San Bernardino Counties. The following ***Table 4*** summarizes demographic and new housing market data for the combined Riverside and San Bernardino Counties area.

Residential building permits increased significantly between 2002 through 2004 before declining slightly in 2005 and then significantly in 2006. Building permits peaked at 52,696 in 2004, a 58% increase from 2002. As indicated on the table, building permits for 2006 totaled 39,083 units, which equated to a 23% decrease from 2005. The number of building permits decline even further in 2007 totaling 20,535, a decline of 47% in comparison to 2006.

For the combined new and existing housing sales for the combined Riverside and San Bernardino Counties, the number of sales peaked in 2005 at 135,641 sales, a 30% increase from 2002. However, sales decreased 29% in 2006. Total sales during 2007 reflected a decrease of 41% from 2006, or 58% from the peak year of 2005. The average annual home price increased each year from 2002 through the 1st quarter of 2007. The average price began decreasing in the 2nd quarter of 2007, and has decreased each subsequent quarter. For annual 2007, the average price was $404,522, a 6% decrease from 2006.

## *NEW HOME MARKET TRENDS*

### *West Riverside County Historical Trends*

The following information on the local new housing market was obtained from *Residential Trends,* published by MarketPointe Advisors.

The subject Temecula area is within MarketPointe's Temecula/Murrieta sub-market of West Riverside County. Historical sales trends for these two market areas are summarized in ***Table 5***. As shown therein, new home sales in West Riverside County increased significantly from 2001 through 2005 with 11,881 sales and 2001 and nearly double that during 2005. The increase was due both to faster sales rates and greater supply. The number of active projects rose from an average of 219 in 2001 to 338 in 2005. The average project sales rate climbed from 4.5 units per month in 2001 to 6.2 units in 2003 and 2004, before slipping to 5.5 units per month in 2005.

**TABLE 4**

**Southern California (Combined Riverside and San Bernardino Counties)**

| | 12/31/2002 | 12/31/2003 | 12/31/2004 | 12/31/2005 | 12/31/2006 | (3 months) 3/31/2007 | (3 months) 6/30/2007 | (3 months) 9/30/2007 | (3 months) 12/31/2007 |
|---|---|---|---|---|---|---|---|---|---|
| Employment Numbers | 1,084,000 | 1,119,400 | 1,178,700 | 1,240,300 | 1,288,400 | 1,323,100 | 1,344,700 | 1,344,200 | 1 738,000 |
| Job Growth | | 3.3% | 5.3% | 5.2% | 3.9% | 2.7% | 1.6% | 0.0% | 29.1% |
| Population | 3,585,000 | 3,701,500 | 3,864,476 | 4,027,325 | 4,104,259 | 4,104,259 | 4,104,259 | 4,104,259 | 4 109,782 |
| Population Growth | | 116,500 | 162,976 | 162,849 | 76,934 | 0 | 0 | 0 | 5,523 |
| Building Permits Single Family | 29,770 | 35,957 | 43,469 | 45,299 | 33,291 | 5,344 | 5,749 | 3,002 | 1,963 |
| Building Permits Multi Family | 3,510 | 7,044 | 9,227 | 5,519 | 5,792 | 1,409 | 395 | 1,768 | 907 |
| Building Permits Total | 33,280 | 43,001 | 52,696 | 50,818 | 39,083 | 6,753 | 6,144 | 4,768 | 2,870 |
| Building Permits Change | | 29% | 23% | -4% | -23% | -83% | -8% | -22% | -40% |
| Gross Single Family Sales (New Units) (total annual/qtr.) | 26,244 | 29,130 | 31,818 | 34,498 | 21,845 | 5,266 | 4,312 | 3,083 | 2,688 |
| Net Single Family Sales (New Units) (total annual/qtr.) | 26,148 | 29,052 | 31,444 | 33,874 | 20,618 | 4,935 | 3,895 | 2,394 | 2,178 |
| Fallout % (cancellations) | 0.4% | 0.3% | 1.2% | 1.8% | 6.0% | 6.3% | 9.7% | 22.3% | 19.0% |
| Single Family Inventory (New) - At Year/Qtr.-End | 2,115 | 1,659 | 3,263 | 3,839 | 6,219 | 6,248 | 6,257 | 6,200 | 4,759 |
| Single Family Months Supply (New) | 1 | 1 | 1 | 1 | 4 | 4 | 5 | 8 | 7 |
| Single Family House Price (New) - Annual/Qtr. Avg. | $275,513 | $312,858 | $410,892 | $465,841 | $504,419 | $498,783 | $478,178 | $458,617 | $414,442 |
| Gross Townhouse & Condo Sales (New Units) (total annual/qtr.) | 983 | 682 | 1,460 | 3,566 | .2,967 | 668 | 525 | 453 | 329 |
| Net Townhouse & Condo Sales (New Units) (total annual/qtr.) | 921 | 682 | 1,456 | 3,547 | 2,875 | 615 | 450 | 403 | 258 |
| Fallout % (cancellations) | 6.3% | 0.0% | 0.3% | 0.5% | 3.1% | 7.9% | 14.3% | 11.0% | 21.6% |
| Townhouse & Condo Inventory (New Units)- At Year/Qtr.-End | 178 | 6 | 174 | 352 | 721 | 826 | 942 | 958 | 588 |
| Townhouse & Condo Months Supply (New) | 2 | 0 | 1 | 1 | 3 | 4 | 6 | 7 | 7 |
| Townhouse & Condo House Price (New) - Annual/Qtr. Avg. | $188,685 | $246,959 | $310,827 | $350,680 | $330,608 | $348,510 | $336,889 | $358,151 | $315,959 |
| Net SF, TH & Condo Sales (Existing Units) (total annual/qtr.) | 76,754 | 86,471 | 98,007 | 97,577 | 71,719 | 11,764 | 11,306 | 8,870 | 7,208 |
| SF, TH & Condo House Price (Existing Units) - Annual/Qtr. Avg. | $192,180 | $232,235 | $303,254 | $382,488 | $420,931 | $434,093 | $432,049 | 410,485 | 319,815 |
| Overall New and Existing Total Net Housing Sales | 103,823 | 116,283 | 131,285 | 135,641 | 96,831 | 17,698 | 16,143 | 12,406 | 10,225 |
| Overall New and Existing Total House Price - Annual/Qtr. Avg. | $213,137 | $252,308 | $328,245 | $400,659 | $429,876 | $438,181 | $427,359 | $393,621 | $321,702 |

TABLE 5
NEW HOME SALES 2001 - 2007
WEST RIVERSIDE COUNTY AND TEMECULA/MURRIETA

| | | *West Riverside County* | | | *Temecula/Murrieta* | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Quarter | Quarterly Sales | No. of Projects | Avg./Project Per Month | Quarterly | % County | No. of Projects | Avg./Project Per Month |
| 2001 | Q1 | 3,333 | 216 | 5.1 | 1,280 | 38% | 82 | 5.2 |
| | Q2 | 3,467 | 226 | 5.1 | 1,385 | 40% | 84 | 5.5 |
| | Q3 | 2,910 | 222 | 4.4 | 1,011 | 35% | 78 | 4.3 |
| | Q4 | 2,171 | 210 | 3.4 | 555 | 26% | 68 | 2.7 |
| | Total/Avg. | 11,881 | 219 | 4.5 | 4,231 | 35% | 78 | 4.4 |
| 2002 | Q1 | 3,962 | 230 | 5.7 | 1,395 | 35% | 75 | 6.2 |
| | Q2 | 5,086 | 236 | 7.2 | 1,581 | 31% | 81 | 6.5 |
| | Q3 | 4,115 | 223 | 6.2 | 1,589 | 39% | 77 | 6.9 |
| | Q4 | 2,984 | 209 | 4.8 | 979 | 33% | 72 | 4.5 |
| | Total/Avg. | 16,147 | 225 | 6.0 | 5,544 | 34% | 76 | 6.0 |
| 2003 | Q1 | 3,862 | 219 | 5.9 | 1,264 | 33% | 77 | 5.5 |
| | Q2 | 4,630 | 244 | 6.3 | 1,413 | 31% | 84 | 5.6 |
| | Q3 | 4,656 | 233 | 6.7 | 1,297 | 28% | 77 | 5.6 |
| | Q4 | 3,903 | 226 | 5.8 | 1,014 | 26% | 69 | 4.9 |
| | Total/Avg. | 17,051 | 231 | 6.2 | 4,988 | 29% | 77 | 5.4 |
| 2004 | Q1 | 5,445 | 221 | 8.2 | 1,542 | 28% | 66 | 7.8 |
| | Q2 | 5,263 | 247 | 7.1 | 1,129 | 21% | 71 | 5.3 |
| | Q3 | 4,368 | 266 | 5.5 | 1,240 | 28% | 85 | 4.9 |
| | Q4 | 3,463 | 291 | 4.0 | 956 | 28% | 89 | 3.6 |
| | Total/Avg. | 18,539 | 256 | 6.2 | 4,867 | 26% | 78 | 5.4 |
| 2005 | Q1 | 5,076 | 326 | 5.2 | 1,145 | 23% | 96 | 4.0 |
| | Q2 | 6,672 | 335 | 6.6 | 1,803 | 27% | 91 | 6.6 |
| | Q3 | 6,976 | 335 | 6.9 | 1,406 | 20% | 96 | 4.9 |
| | Q4 | 3,613 | 355 | 3.4 | 656 | 18% | 86 | 2.5 |
| | Total/Avg. | 22,337 | 338 | 5.5 | 5,010 | 22% | 92 | 4.5 |
| 2006 | Q1 | 4,586 | 355 | 4.3 | 824 | 18% | 79 | 3.5 |
| | Q2 | 3,755 | 372 | 3.4 | 868 | 23% | 77 | 3.8 |
| | Q3 | 2,399 | 376 | 2.1 | 368 | 15% | 66 | 1.9 |
| | Q4 | 2,639 | 378 | 2.3 | 333 | 13% | 63 | 1.8 |
| | Total/Avg. | 13,379 | 370 | 3.0 | 2,393 | 17% | 71 | 2.7 |
| 2007 | Q1 | 2,906 | 383 | 2.5 | 419 | 14% | 60 | 2.3 |
| | Q2 | 2,524 | 375 | 2.2 | 395 | 16% | 62 | 2.1 |
| | Q3 | 1,613 | 374 | 1.4 | 264 | 16% | 61 | 1.4 |
| | Q4 | 1,357 | 355 | 1.3 | 305 | 22% | 56 | 1.8 |
| | Total/Avg. | 8,400 | 372 | 1.9 | 1,383 | 17% | 60 | 1.9 |
| Average | | 15,391 | 287 | 4.8 | 4,059 | 26% | 76 | 4.3 |

*Source: MarketPointe Realty Advisors*

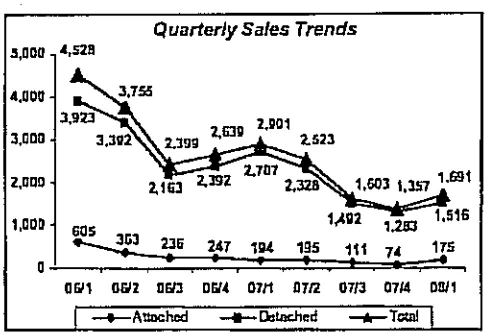
During 2006 sales activity dropped almost back to the 2001 level with 13,379 total sales in 2006. The 2006 sales activity in the West Riverside County market was the lowest level since 2001. Sales activity declined further during 2007 and was reported at 8,400, the lowest level during the past seven years. Even though sales activity has declined significantly during the past two years, the number of active projects has continued to grow. The slower sales activity coupled with the increasing number of projects has resulted in extended marketing times with sales absorption averaging 1.9 sales per project per month for 2007. The final two quarters of 2007 experienced an average absorption rate of only 1.3 sales per project per month.

The Temecula/Murrieta sub-market experienced a more stable trend for the period from 2001 through 2005 with sales activity ranging from a low of 4,231 in 2001 and peaking in 2002 at 5,544 sales. Sales activity in the sub-market declined significantly (52%) during 2006 then another 42% in 2007. The Temecula/Murrieta sub-market accounted for more than one-third of the home sales in the West Riverside County area during 2001. As the housing market boomed opening other areas of the county, the sub-market market share began to decline. The Temecula/Murrieta sub-market accounted for 17% of the West Riverside County home sales during 2007.

## *Recent Trends*

Recent trends in the new detached housing market in the West Riverside County market area are taken from the 1st quarter 2008 issue of *Residential Trends*. These trends are discussed briefly below and summarized in the following ***Table 6***. We have also included market trends within the subject Temecula/Murrieta area.

- Net sales of new-detached homes in West Riverside County increased 18.2% from the 4th quarter 2007 to the 1st quarter 2008 from 1,283 to 1,516. Sales activity was down approximately 67.3% when comparing the 4th 2007 to the 1st quarter 2006. Sales activity was at its highest levels during 2005, before it began to slump in the 4th quarter 2005. Sales activity fluctuated some during 2006 and 2007, but has generally been on a downward trend for the past two years. The table to the right illustrates sales activity for West Riverside County during the past two years.



## TABLE 6
## NEW HOUSING MARKET OVERVIEW

### *West Riverside County (Detached)*

| | *1Q 2008* | *Previous Quarter (4Q 2007)* | | | *Same Quarter Last Year (1Q 2007)* | | |
|---|---|---|---|---|---|---|---|
| | # | # | Change | % Change | # | Change | % Change |
| Total Sales | 1,516 | 1,283 | 233 | 18.2% | 2,707 | -1,191 | -44.0% |
| Active Projects | 320 | 332 | -12 | -3.6% | 355 | -35 | -9.9% |
| Average Sales/Project/Month | 1.6 | 1.3 | 0.3 | 23.1% | 2.5 | -0.9 | -36.0% |
| Average Base Price | $406,552 | $434,186 | ($27,634) | -6.4% | $493,054 | ($86,502) | -17.5% |
| Average Unit Size (SF) | 2,958 | 2,987 | -29 | -1.0% | 2,886 | 72 | 2.5% |
| Average Price Per SF | $137 | $145 | ($8) | -5.5% | $171 | ($34) | -19.9% |
| Unsold Inventory (Units) | 2,088 | 2,429 | (341) | -14.0% | 2,993 | (905) | -30.2% |
| Months' Supply | 4.1 | 5.7 | (1.5) | -27.3% | 3.3 | 0.8 | 24.6% |

### *Temecula/Murrieta*

| | *1Q 2008* | *Previous Quarter (4Q 2007)* | | | *Same Quarter Last Year (1Q 2007)* | | |
|---|---|---|---|---|---|---|---|
| | # | # | Change | % Change | # | Change | % Change |
| Total Sales | 290 | 280 | 10 | 3.6% | 369 | -79 | -21.4% |
| % of West Riverside County | 19.1% | 21.8% | -2.7% | -12.3% | 13.6% | 5.5% | 40.3% |
| Active Projects | 45 | 52 | -7.0 | -13.5% | 54 | -9.0 | -16.7% |
| Average Sales/Project/Month | 2.1 | 1.8 | 0.4 | 19.7% | 2.3 | -0.1 | -5.7% |
| Average Base Price | $418,508 | $455,742 | ($37,234) | -8.2% | $514,068 | ($95,560) | -18.6% |
| Average Unit Size (SF) | 3,027 | 3,152 | -125 | -4.0% | 2,987 | 40 | 1.3% |
| Average Price Per SF | $138 | $145 | ($7) | -4.8% | $172 | ($34) | -19.8% |
| Unsold Inventory (Units) | 265 | 327 | (62) | -19.0% | 448 | (183) | -40.8% |
| Months' Supply | 2.7 | 3.5 | (0.8) | -21.8% | 3.6 | (3.9) | -106.0% |

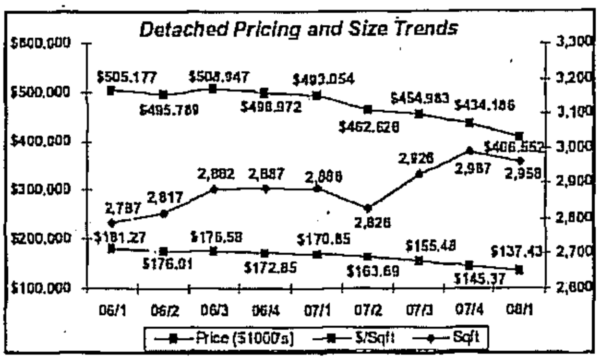
*Source: Market Pointe Realty Advisors*

- Sales activity in the subject Temecula/Murrieta sub-market area has followed a similar, yet less intense trend during the past two years. Sales activity peaked during the 2nd quarter 2006 in the subject market, before declining significantly over the past two years. The Temecula/Murrieta sub-market area accounted for more than one-third of the sales activity in 2001 and 2002 before beginning to decline in 2003. Sales activity in the subject sub-market now accounts for less than 20% of the activity in the West Riverside County area. The initial decline in market share however was not attributed to a lack of demand, but rather decreasing supply as the area became more built-out.

- There were 320 new-detached home developments in the West Riverside County market during the 1st quarter 2008, down from 332 the prior quarter. Dividing the 1,516 net sales for the 1st quarter 2008 by the 320 developments indicates an average absorption rate of 1.6 sales per project per month. The average absorption for the 4th quarter 2007 was 1.3 sales per project per month in West Riverside County. The average absorption rate for one year ago was 2.5 sales per project per month.

- There were 45 active detached home projects in the subject Temecula/Murrieta submarket area during the 1st quarter 2008 accounting for the 290 net sales. The indicated average absorption rate was 2.1 sales per project per month. The absorption rate in the submarket one year ago was 2.3 sales per month per project.

- The average price for a new-detached home of $406,552 in West Riverside County during the 1st quarter 2008 reflects a 6.4% decline in comparison to the average price during the 4th quarter 2007. The recent average price is 17.5% lower in comparison to the 1st quarter 2007. The average price for a new detached home in the West Riverside County market has generally been declining during the past two years. The average price fluctuated slightly from the 1st quarter 2006 through the 3rd quarter 2006 hovering around $500,000, but has declined in each of the past six quarters even though the average size has generally increased during the past six quarters. The graph to the right illustrates price trends for West Riverside County during the past two years. The average home price in the subject sub-market was reported at $418,508 down 8.2% in comparison to the 4th quarter 2007 and down 18.6% when compared to one-year earlier.



- The average size of a new detached home during the 1st quarter 2008 in West Riverside County was 2,958 square feet, slightly smaller in comparison to the 2,987 square foot average size for the 4th quarter 2007. The average home size for the 1st quarter 2007 was 2,886 square feet. The average home size in the subject sub-market was 3,027 square feet during the 1st quarter 2008 down from 3,152 square feet in the 4th quarter 2007. The current average size is 1.3% larger in comparison to one year ago.

- Even though the average price and average home size decreased, the average price per square foot also decreased, declining 5.5% in the general market area from the 4th quarter 2007 to the 1st quarter 2008. In comparison to the 1st quarter 2007, the average price per square foot declined 19.9% in the West Riverside County area. The average price per square foot decreased 4.8% in the Temecula/Murrieta sub-market area from the 4th quarter 2007 to the 1st quarter 2008 and was reported at $138 per square foot of living area. Over the past year the average price per square foot decreased 19.8% in the subject sub-market.

- Unsold inventory in West Riverside County for the 1st quarter 2008 was 14.0% lower in comparison to the unsold inventory level for the 4th quarter 2007. The decline in unsold inventory coupled with the increase in sales activity resulted in a decreased supply of 4.1 months. Unsold inventory also declined in the subject sub-market. The decline in inventory coupled with an increase in sales activity resulted in a reduced supply equaling 2.7 months.

In summary, the market data reflects that the housing market in West Riverside County and Temecula/Murrieta continues to show signs of weakness, but the increased activity may be a result of prices dropping to a more affordable level. Homebuilders continue to react to market trends by decreasing production. The number of active developments continues to decline, but it is still anticipated that it will take two to three years to work through unsold inventory, including homes not yet built.

### *Proposed Development*

According to information compiled by MarketPointe Realty Advisors, in the West Riverside County market area, there were 171,419 new detached housing units planned for future development as of the end of the 1st quarter of 2008. However, this represents units ranging from projects with no entitlements to projects under construction. Of the future proposed supply, about 8% are under construction or have final maps, approximately 38% of the projects have tentative approvals, and the remaining 54% are in the early planning stages. Of the total planned units, 11% are located within the subject Temecula/Murrieta City sub-market.